The highest reports of shortage are of particular classes of labor and come from cities showing otherwise a surplus. Thus on March 8 Pittsburgh reported a shortage of 1,500 miners and a surplus of 19,000 of certain other classes; Memphis, a shortage of 700 for colored farm labor and an unestimated surplus for white labor. Three cases only reported any increase in the shortage of labor.

By far the largest decreases in the amount of employment occur in food, iron and steel, and non-ferrous metal industries.

WASHINGTON NOTES

REPORTS OF THE TARIFF COMMISSIONS

The United States Tariff Commission on March 6 transmitted to Congress a report in favor of early enactment of legislation authorizing the imposition of additional tariff duties at the discretion of the President to enforce equality of treatment in international tariff matters. This is the outcome of an investigation of reciprocity and commercial treaties which has been in progress for a good while past. The Commission says that an opportunist attitude on the tariff question was natural so long as the United States held itself aloof from foreign complications and was intent upon avoiding them. But the situation is entirely altered now on account of the fact that the government is committed to participation in "world politics." The report then goes on to say that "so far as commercial policy and commercial negotiations are concerned the evidence presented in the present report indicates that a policy of special arrangements such as the United States has followed in recent decades leads to troublesome complications. Whether as regards our reciprocity treaties or as regards our interpretation of the most favored nation clause the separate and individual treatment of each case tends to create misunderstanding and friction with countries which though supposed not to be concerned yet are in reality much concerned."

After discussing further the question of equality of treatment in tariff matters, the Commission says that the guiding principle in future negotiations might well be that of "equality of treatment—a principle in accord with American ideals of the past and of the present." Nevertheless, according to the Commission, "there may be occasion for qualifications or exceptions to the principle of equality of treatment. These exceptions include cases where one country has a long frontier line in common with another or instances where special political ties and

responsibilities exist, and a few others. As a means of securing just treatment by other countries it is suggested that concessions be provided for in certain cases and additional penalty duties in others. Reviewing the relative merits of these plans, the Commission takes the position that under the existing tariff system of the United States, "the method of additional duties would seem to be the only one that could be put at once in operation. . . . . The method of additional duties is that which can be put into effect by the United States at once without disturbance of its general tariff policy and without committing the country definitely as regards the permanent commercial arrangements which may be evolved as part of the coming international settlement. The necessary flexibility can be secured by leaving the actual imposition of additional duties to the discretion of the President who shall act always in conformity with a stated general principle and subject to general limits defined by statute." This is practically a recurrence to the "penalty duty" plan of the Aldrich-Payne tariff law, subject to certain modifications and alterations and to a more elaborate method of determining the conditions under which the penalizing duties shall be imposed.

The Tariff Commission has from the beginning shown what is described as a very conservative attitude, practically inclining toward the increase of tariff duties and the establishment of new rates for the purpose of building up home industries. The report now under consideration, which commits the organization to the old retaliatory duty idea, is another step in the development of the work of the Commission along these conservative lines. In the opinion of most observers a revision of the tariff will be one of the earliest economic subjects to be considered by Congress after the treaty of peace has been disposed of. The reports of the Tariff Commission now seem to tend strongly in the direction of restoring a more highly protective régime than that established under existing law.

NEW LIBERTY LOAN

Secretary Glass has now announced the general outlines of the plan for floating the new Liberty Loan under the terms of the act of Congress passed just before adjournment on March 3. The new plan contemplates the issue of four classes of notes, the one bearing a rate of interest not yet stated, but probably about 4 per cent entirely free of taxation, one bearing a rate of interest not yet stated but probably about 5 per cent and subject to all kinds of taxation, while two intermediate classes grant exemptions of a specified amount, their rates of yield being higher

than 4 per cent and not so high as 5 per cent. The new notes will run not over five years with ample opportunity to the government to redeem them. Moreover, the different classes of notes will be convertible into one another so that there need exist no difference between or premium of one over the other issues. The definitive plan was announced on March 12, following substantially the lines of the act as passed by Congress, while April 21 was set as the date for launching the campaign for the placing of the loan.

It is already the expressed belief of the banking community that the putting of this loan into the form of short-term notes tends decidedly in the direction of massing the securities in the hands of the banks, instead of distributing them more widely to the public at large. Secretary Glass, on the other hand, has expressed the opinion that every effort should be made to obtain as broad a distribution as possible in the belief that the notes should not be allowed to remain in the hands of the banks to any greater extent than is absolutely unavoidable. As a matter of fact, very nearly $4,000,000,000 in short-term certificates had been placed with the banks up to March 1, in anticipation of the Fifth Liberty Loan, and it may reasonably be expected that $2,000,000,000 more will have been disposed of to them before the close of April—that is to say, before the campaign for the fifth loan has more than started. The fifth loan, therefore, will be a campaign for the distribution of government securities which have already been sold to the banks. Although the presupposition is adverse to the successful distribution of the notes to a great number of holders, much will depend upon the skill with which the final rates of interest and other conditions are determined.

During the months of January and February the market for Liberty Bonds has been unfavorable, some of the issues going as low as 94 on the New York Stock Exchange. This is not an encouraging situation, but it affords a possibility of inducement in connection with the placing of the new issue which has thus far been somewhat neglected. By holding out conversion rights to actual *bona fide* holders of the old bonds to subscribe to the new notes, it may be possible to induce the old buyers to purchase more government obligations, because by so doing they will be equalizing their holdings. It is of course true that many of the former purchasers took their securities as a matter of public duty, and that the influence of patriotic motives in leading to the purchase of bonds has, whether rightly or wrongly, been considerably weakened. Many holders of the old securities are, however, disappointed at the deterioration of their bonds in the market, and correspondingly desirous of finding

some means of adjusting the values so as to bring them back to original cost. To take advantage of this situation, while at the same time enlisting all other available means for offsetting the disposition to throw the new securities upon the banks instead of absorbing them popularly, will be the problem of the new or "victory" borrowing operations.

THE INCOME-TAX LAW IN EFFECT

The action of the President in signing the War Revenue Bill shortly before the adjournment of Congress (February 24, 1919) rendered that law operative, and under its terms the collection of revenue upon the new basis prescribed by the act has already begun. The date of tax payment differs under the new law from that previously fixed, in that it permits the payment of the taxes in four instalments, the first being due simultaneously with the first payment on March 15, and amounting to one-fourth of the aggregate assessment. It would not have been possible to make preparation for beginning the collection so soon after the actual adoption of the new legislation had it not been for the fact that the Treasury Department authorities had taken every possible step in advance for the purpose of getting ready to apply the legislation in practice immediately upon its becoming effective. Consequently it has been practicable to distribute the individual income-tax blanks for incomes below $5,000, the individual income-tax blanks for incomes above $5,000, and various supplementary blanks. The distribution of the corporation-tax blanks was delayed beyond March 15; and this necessitated a resort to the undesirable expedient of permitting the filing of a "tentative" return, a permission likewise extended to individual income-tax payers when necessary, it being the view of the Department, however, that in practically all cases individuals should prepare to make return and could file their schedules on March 15 without serious difficulty.

Examination of the new tax blanks as sent out shows that in preparing them for distribution the Internal Revenue Bureau has again exercised a function second only in importance to the actual writing of the law, inasmuch as the new blanks establish conditions of payment which are of such importance as to constitute an interpretation or addition to the legislation almost equal to an amendment. Analysis of the blanks, as far as it has gone, has on the whole been unfavorable. The blanks appear to resolve every doubt in favor of the government; and while (either in the law itself or in the formulation of the blanks) some pieces of injustice which were notable a year ago have been removed, certain others of equally important character have now appeared. Among

these is the adoption of the plan of figuring both normal and excess-profits tax and surtax upon the mount of the whole net income, instead of as in the past permitting the subtraction of the excess-profits tax prior to beginning the computation of the tax on the remainder. Another point at which the blank has interpreted the law adversely to the taxpayer is seen in the failure to provide for the subtraction of losses from the amount subject to surtax in those cases where losses exceed the total amount of earned income and should therefore constitute a deduction from dividends. In the arrangement of that schedule of the blank which has reference to the exemption of receipts from Liberty Bonds several errors have apparently been made, so that the work on the whole shows the results of haste and amounts in some aspects to a severe blow at the taxpayer. Already there are indications that the public in general will not submit to income taxation under these conditions without a strong protest and preparations are apparently being made for an attempt to test the legislation in the courts. The actual rulings of the Bureau, which are increasing in number and complexity from day to day, have been embodied in an executive document of considerable size which now accompanies the tax blank and is practically indispensable to the making of a correct return (Regulations 45, preliminary edition).

AN ATTEMPT TO LOWER RAILROAD RATES

An unusual proceeding has been instituted before the Interstate Commerce Commission through the filing of a suit against the Delaware, Lackawanna & Western Railroad Co. and the Director of Railroads on behalf of the Solvay Process Co., in which Secretary of Commerce Redfield has joined. The request in this case is the reduction of the rates for a certain run which is taken as affording a test case, the chief interest in the situation being found in the fact that the Secretary of Commerce is admitted as a party to a suit, as representing the public at large. Mr. Redfield in his brief contends that "it is the duty of the Department of Commerce to foster, promote, and develop the foreign and domestic commerce, the mining, manufacturing, shipping, and fishery industries, and the transportation facilities of the United States; and the Secretary of Commerce is charged with the responsibility of carrying out the purpose for which the Department of Commerce was created as thus broadly outlined." The brief then goes on to contend that, inasmuch as transportation is so essential to commerce that without it there can be no trade, it is the duty of the Department of Commerce to take such

steps as will facilitate transportation. From this it is concluded that the right of the Department of Commerce to appear in any cause which may affect transportation is established.

Coming to the question of rates, the brief of the Secretary of Commerce takes an important and interesting point of view with respect to the principles upon which the Railroad Administration is supposed to be operating. "It cannot be argued," says the brief, "that it is the obligation of the Railroad Administration to operate at a profit. . . . . In so far as for the purposes of revenue it may take steps injurious to the commerce of the country, it departs from its essential duty." So that the need of revenue cannot be pleaded as a defense of the imposition of high rates. The rates to be charged must be "just and reasonable," and it is stated that in each case the Railroad Administration must ask, not how revenue can be obtained, but how the public can be served both directly and indirectly while operating at a reasonable and just profit. On the strength of this argument, the conclusion is reached "that the action of the Railroad Administration in doubling a rate which . . . . the testimony shows to be profitable is an oppressive act, ... that it cannot be justified by any need of actual revenues for the entire Federal Railroad System and that it should be revoked."

CREDIT BAROMETRICS

The Federal Reserve Board has published in the Federal Reserve Bulletin for March a study of "credit barometrics" prepared by Mr. Alexander Wall, of Detroit, Michigan. This study constitutes a distinct contribution to the analysis of credit operations at the present time. In commercial banks, while the development of credit files and of credit information has made rapid and desirable progress within the past ten years, this progress has been rather in the direction of obtaining and classifying information than in that of scientifically using the information obtained in this way. Mr. Wall's study is intended to devise a system of credit ratios whose purpose it is to afford an acceptable substitute for the old "two for one" rule employed by many bankers. Acting in accordance with this rule, it has been frequently the practice of banks to take the view that the advances made to borrowers should not exceed, say, twice the amount of their liquid assets as shown by statement. The fact that the liquidity of these assets differs very greatly in different lines of business is of course recognized; but thus far the application of methods for the practical recognition of such differences has been in a very elementary stage of development.

The new study, which has been conducted under the supervision of the Board's Division of Analysis and Research, is intended to devise about half a dozen new ratios between different items in the statement which will serve to afford a working basis for credit analysis. It is conceded that these ratios are insufficient, in and of themselves, or as applied to any particular business, to serve as a test of practical action, and that to make them serviceable in this way there must be provided a standard set of ratios representing the general condition of all firms in the industry. This the study now under consideration endeavors to do by obtaining all available statements placed by current borrowers in the hands of commercial-paper brokers the country over. In all, it is estimated that about 7,000 names are regularly in the hands of commercial-paper brokers. Out of these it has been possible to obtain about 2,000 statements, and of these 2,000 about 1,000 proved to be clearly available for the purposes of the inquiry. In order to allow for geographical differences of condition, the country was divided into ten districts, and the statements were grouped in these ten regions, new ratios being computed for a given industry in each of the regions.

With so relatively small a number of statements, the effect of this plan was naturally to tend in the direction of diminishing the representative character of the final ratios, because of the fact that in some cases the number of statements available as a basis for computation was insufficient. Nevertheless, the inquiry has thrown some valuable light upon the methods of making credit analysis, inasmuch as it has developed a more scientific and careful plan of actually comparing statements of individual concerns with general or typical conditions. Probably the most severe criticism to be made upon the study is that, due to lack of uniformity and methods of bookkeeping and accounting, it cannot fairly be claimed that any considerable number of statements are to be regarded as precisely comparable with one another. There is, of course, a certain degree of comparability, otherwise the study would not be possible at all. But it is evident that close reliance upon the results derived by any such mode of study must necessarily depend upon a closely uniform and comparable method of accounting adopted by the great majority of those whose statements are included within the group selected for compilation and analysis. Other minor criticisms may also properly be made upon the methods of the investigation.